NASA Advisory Council Meeting

Report of Audit and Finance Committee

April 16, 2009

Members:

Mr. Robert Hanisee, Chairman Hon. Ted McPherson Hon. Michael Montelongo Dr. Howard Stanislawski

NASA:

Hon. Ron Spoehel Mr. Terry Bowie

Audit & Finance Committee Headquarters Meeting Fact Finding Sessions April 14 - 15, 2008

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- FY2008 Financial Statement Audit Remediation
- FY2009 Financial Statement Audit Plan
- Valuation of Legacy Property, Plant, and Equipment
- Valuation of current Capital Acquisitions
- NASA Execution of the American Recovery & Reinvestment Act
- Office of the Chief Financial Officer, Quality Assurance Division Oversight
- Unfunded Environmental Liabilities
- Continuous Monitoring Program Update
- Goddard Space Flight Center Remediation
- Wrap-Up & Future Actions

- Financial Systems, Analyses, and Oversight (Modified Repeat Condition)
- "... NASA management's review and the results of our audit procedures continued to identify weaknesses in entity-wide internal control, which impaired NASA's ability to report accurate financial information on a timely basis." (2008 PAR, page 161)

Note: This is a joint issue with CIO, EMD, Procurement, and Infrastructure

- Enhancements Needed for Controls over Legacy PP&E and Materials Contracts (Modified Repeat Condition)
 - "Controls relating principally to contractor-held PP&E and materials and NASA-held assets in space and work in process need improvement; Headquarters oversight needs improvement." (2008 PAR, page 173) Note: This is a joint issue with Infrastructure

As presented by Bruce Ward, Associate Deputy CFO

Definition of Resolution Status Categories:

- "Partially Remediated" means the scope of remediation needed has been identified and work is underway and continues to remediate the deficiency.
- "Substantially Remediated" means NASA believes the deficiency has been remediated, although final testing may be still in process, or more time may be needed to collect sufficient evidence for the auditors to support NASA's assertion.
- "Fully Remediated" means the auditors should have sufficient evidence to conclude that the deficiency has been remediated



Topic	Findings	Remediation Activities	Projected Timeframe
Continuous Monitoring Program (CMP) Financial Statement Preparation Process	Inconsistencies in documentation; Slow resolution of issues; More Guidance Needed Inconsistencies in flux analyses; Coordination of legal contingencies; Intragovernmental reporting	Refinements to the CMP made through focused working sessions ("clinics") with participation from all Centers; Data issues are identified by root cause and tracked through resolution [Hyland, 4/14, 10:00] Flux analyses are consistent with OMB guidance; Legal coordination process improved; Participating in Department of Treasury Central Agency Reporting Team (CRT) meetings to address intra-governmental issues and possible resolutions through accounting guidelines and transaction postings	FY 09: Substantially Remediated FY 10: Fully Remediated FY 09: Fully Remediated
Data Issues	Controls over non- routine journal vouchers (JVs); Delayed Grant and Contract Close-outs	New JV policy requires Centers to initiate and fully document non-routine JVs; Grants process improvements expected to speed close-outs; Contract close-out delays caused by contract terms and/or completion of final audits by DCAA will continue – NASA monitors aged close-outs to ensure resolution as soon as possible	FY 09: Substantially Remediated FY 10: Fully Remediated



Topic	Findings	Remediation Activities	Projected Timeframe
Estimating Environ- mental Liabilities	SFFAS 6 non- compliance; System controls (IDEAL); Reviews of estimates not functioning consistently	OCFO and EMD collaborating on draft process for implementing SFFAS 6 – will develop new CMP chapter consistent with changes; Conducted limited independent validation of the IDEAL models in use at JSC – estimate within the acceptable validation range of the actual comparison project costs; Updated the UEL Joint Review & Verification Form and associated process documentation to improve joint reviews of estimates [Dominguez, 4/15, 9:45]	FY 09: Partially Remediated FY 10: Substantially Remediated
FFMIA Compliance	Subsidiary systems not integrated; Improper transactions; Segregation of duties issues	Real property system is not currently integrated with SAP – currently working towards automating portion of Real Property by utilizing the Asset Accounting Module in SAP; Improper transactions are identified through the CMP and resolved through regular cycle of system releases; New tool introduced to identify and resolve segregation of duties issues on a more timely basis	FY 09: Not Substantially Compliant FY 10: Not Substantially Compliant



Topic	Findings	Remediation Activities	Projected Timeframe
Recording Legacy Asset Values	NASA waited until the asset was complete to obtain disbursement data for capitalization	NASA is working with FASAB to develop guidance for Estimating the Historical Cost of General PP&E – guidance should provide auditors with appropriate standard for the valuation of legacy assets [Hyland, 4/14, 10:30]	FY 09: Partially Remediated FY 10: Partially Remediated
Implementation of Capitalization Policy Changes	Inconsistencies in use of policy; Additional contractor reporting enhancements needed	Continuing to monitor policy implementation; Enhanced property controls in the CMP [Hyland, 4/14, 12:45]	FY 09: Partially Remediated FY 10: Substantially Remediated
System Integration	Property systems not fully integrated; Reliant on spreadsheets to calculate depreciation	Real property system is not currently integrated with SAP, resulting in manual calculation of depreciation – currently working towards automating portion of Real Property by utilizing the Asset Accounting Module in SAP	FY 09: Partially Remediated FY 10: Partially Remediated

• FY2009 Audit Plan

- Meeting with Ernst & Young
 - Dan Murrin, Senior Audit Partner
 - Eleanor Crawford, Executive Director
- Office of the Inspector General (OIG)
 - Evelyn Klemstine, Asst. IG for Auditing
 - Mark Jenson, Director, Financial Statement Audits

FY2009 Audit Plan

Phased Audit Approach

Phase 1 – Planning

- a) Identification of significant financial processes that correlate with significant financial statement line items
- b) Follow-up status of managements corrective actions
- c) Preparation of planning documentation to OIG

Phased Audit Approach: Phase 1-Planning Significant Account Relationships

•		Significant Accounts											
Processes	Transaction Types	$F_{ud}_{B_{c,i}}$	Inventor Prairy Pra-	General Prop.	4cc lation Ex Plan	omnis parables and Equipme	4cm. Expense and Related	Comme Syou and Benefix	Other I : Com.	Ver Position and process and p	Perenues	Program and Salement Liabilities	Suggestary Accounts Costs
Financial Reporting, Monitoring and Oversight	Non-Routine	X	X	X	X	X	X	X	X	X	, ()	x x	
Revenue/ Cash Receipts/ Accounts Receivable	Routine	X								x	ĸ	X	:
Expenses/ Cash Disbursements/ Accounts Payable	Routine	X	X		x	x	X	x	x	x	7	x x	
Payroll	Routine	X				x	X					X	
Property, Plant, and Equipment	Routine	X		X	X				X		2	x x	
Inventory - Operating Materials and Supplies	Routine	X	X		X				X		2	x x	
Amortization and Depreciation	Non-Routine			X							7	x x	
Grants and Contracts	Routine	X		X	X			X	X		7	x x	
Fund Balance with Treasury	Routine	X	X	X	X	X				x	K 2	x x	
Budget	Estimation	X	X	X	X	x	X	x	x	x	K 3	x x	
Unfunded Environmental Liability	Estimation	X						X	X			X	

• FY2009 Audit Plan

Phased Audit Approach

Phase 2 – Documentation of Internal Controls

- Documentation of internal control processes (OMB Circular A-123) (Like SOX 404)
- b) Site visits to KSC and NASA Shared Services Center
- c) Environmental liability walkthrough (site TBD)
- d) Documentation and walkthrough of IT general and application control at Marshall, two centers, and NSSC
- e) Identify and explore status of corrective actions

• FY2009 Audit Plan

Phased Audit Approach

Phase 3 – Determine if entity level controls are operating effectively—as designed

- Sample and test entity level controls including submissions for CMP,
 FBWT reconciliations and budget execution
- b) Sample approximately 45 detailed transactions across all centers
- c) Analysis of universe of transactions with feedback; look to management regarding unusual items
- d) Test IT controls in security management, access control, configuration management, segregation of duties and contingency planning

• • FY2009 Audit Plan

Phased Audit Approach

Phase 4 – Reporting

- a) Review elimination/adjusting entries
- b) Audit of financial statements and disclosure
- c) Obtain legal and management representations
- d) Issue reports
 - -Audit of Financial Statements
 - -Internal Controls
 - -Compliance with Laws and Regulations
 - -Special Purpose Financial Statements Reporting

PP&E Accounting – History

- Prior to 1998, NASA expensed costs of space exploration equipment. This was allowed under the GAAP standard associated with "Federal Mission PP&E"
- In FY 1998 the GAAP standard changed and NASA was required to begin capitalizing space exploration equipment
- NASA received unqualified opinions on its financial statements in fiscal years 1998, 1999, 2000 and 2002.
 Property has been a material weakness since FY2001 and ISS and NASA Owned Contractor held Property has been cited since this time.
- NASA has received disclaimers from FY2001, FY 2003 through FY 2008.

• • PP&E Accounting – History of ISS

 Prior to FY01, the asset value of the International Space Station (ISS) was based on budget estimates and did not include the total costs to bring ISS to a form and location suitable for its intended use.

o In FY01:

- –NASA revised its methodology to more accurately reflect the full cost of ISS.
- -The FY01 balances were restated to reflect the actual costs of ISS, including transportation costs (i.e., Space Shuttle launch costs) and associated depreciation.
- NASA began depreciating the ISS in FY01 when it was manned by the first permanent crew. Only the ISS major elements in space are depreciated; any on-ground elements are reported as work in process until launched and incorporated into the existing ISS structure.

NASA Valuation for Legacy Assets

Together, Shuttle and ISS related assets currently represent over 88% of the total net asset value reported in the September 30, 2008 fiscal year-end financial statements. While certain of the existing Shuttle and ISS assets will be transitioned for use on other NASA programs, NASA does not want to wait for the passage of time, as the Shuttle is to be retired in 2010, and the ISS is being depreciated based upon a 15-year specification life through 2016. The values for ISS and Shuttle PP&E as of 9/30/08 are noted below.

PP&E (In Millions)	<u>Cost</u>	Accumulated Depreciation	Net Book Value
ISS & support equipment	\$21,727	\$(9,411)	\$12,316
Shuttle & support equipment	\$9,879	\$(9,132)	\$747
WIP	<u>\$6,044</u>	-	<u>\$6,044</u>
Total	\$ 37,650	\$(18,543)	\$ 19,107

• • Open Issues

• NASA's external auditors do not believe that NASA has the necessary supporting information available to provide auditable book values for the Space Shuttle and the International Space Station (ISS). NASA disagrees with this assessment and believes that the auditors need to accept the approach/methodology being used for ISS and Shuttle.

• • Current initiatives for ISS

- 1. NASA is in the process of documenting the methodology used to arrive at the balances (cost and accumulated Depreciation) for ISS as of 9/30/02. This effort includes identifying any documentation available to support the methodology and the reported balances.
- OCFO is working closely with the Space Operations Mission Directorate and the ISS contractor to adequately document the rationale used in calculating the ISS values that are currently reported for On-Orbit and Ground Support of ISS.
- OCFO is striving to have a complete package prepared and ready to present to E&Y to demonstrate that NASA's utilizes a sound methodology for the ISS calculation and there is sufficient supporting documentation for the valuation of ISS.



- As discussed on the preceding charts, NASA is in the process of documenting the methodology used to arrive at the balances (cost and accumulated Depreciation) for ISS and the SSP as of 9/30/02. This effort will include identifying any documentation available to support the methodology and the reported balances
- NASA performed a robust review of the FASAB Exposure Draft Estimating the Historical Cost of General Property, Plant, and Equipment, and provided comments to FASAB noting that NASA supports the underlying intent of the ED to provide a practical means for agencies to use estimates for existing G-PP&E for which capitalization was not originally contemplated, while protecting the underlying concepts in SFFAS 6 and 23.
- NASA will continue to await final technical guidance from FASAB -- Accounting for Legacy assets is a government-wide issue and act to implement the new standard accordingly.

PP&E Accounting – Identifying Capital Assets and Capturing their Costs

In an effort to address the audit issues surrounding the PP&E lifecycle, in FY 2008 NASA implemented NID 9250, *Identifying Capital Assets and Capturing Their Costs*. This NASA Interim Directive (NID) established the procedural requirements for identifying when a property, plant, and equipment (PP&E) purchase and/or fabrication meets the criteria for capitalization and for segregating the costs of the asset from other project costs so that assets can be properly recorded on NASA's financial statements. The NID describes the process and individual roles and responsibilities for identifying those PP&E that must be capitalized, establishing a work breakdown structure (WBS) element to accumulate the PP&E's costs, and reporting those costs.

PP&E Accounting – Identifying Capital Assets and Capturing their Costs

The following play roles in implementing NID 9250:

- Project Manager
- 2. Agency Procurement
- 3. Contractors
- 4. Agency OCFO
- 5. Center OCFO
- 6. Center Procurement Office

PP&E Accounting – Identifying Capital Assets and Capturing their Costs

For example, Agency Procurement:

- Ensures that the types and approximate quantities of Government Furnished Property and Contactor Acquired Property are discussed in Procurement Plans and Procurement Strategy meetings and that Center financial representatives are included in the procurement planning process (FAR part 7 and NFS part 1807).
- Ensures that the appropriate solicitation instructions, provisions and contract clauses are included in solicitations and contracts.

PP&E Accounting – Identifying Capital Assets and Capturing their Costs

Contractors (as provided for in their contracts):

- Support the accumulation of the cost for each item of NASAdefined capitalized PP&E as required by NASA.
- Support the reporting of current period costs incurred in the acquisition or fabrication of individual capitalized PP&E as separate items on required reporting vehicles such as the NASA Form 533, Contractor Cost Report.
- For fixed priced contracts, itemize capitalized PP&E as a separate item on invoices and/or vouchers.
- Ensure that contract reporting requirements are developed

Open Issues -- Challenges with the Implementation of NID 9250

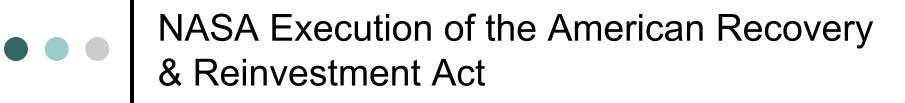
Headquarters

- The new policy does not apply to ISS or SSP and these two programs represent the largest dollars being expended in the PP&E area in FY2008 through FY2010.
- An effective clause to require new contracts to comply with the new policy is still in process by Procurement and OCFO.
- Procurement needs to complete the dissemination of the new policy to Center procurement offices.
- Several large projects were contracted prior to 10/1/07, when the policy went into effect, and the new policy was not mandated on those new projects (i.e., CEV, Ares, Orion). Some components of these projects are capital and are being reported under the old process.

NASA Execution of the American Recovery & Reinvestment Act

- Key Purposes of the Act are:
 - (1) "To preserve and create jobs and promote economic recovery"
 - (2) "To provide investments needed ... by spurring technological advances in science..."
- \$1 Billion is entrusted to NASA for:
 - \$400M for Science
- -- \$50M for CAS
- \$400M for Exploration
- -- \$2M for OIG

- \$150M for Aeronautics
- With Unprecedented Transparency and Accountability
 - Transparency through new reporting requirements
 - Accountability through new controls and audits, AND high level attention from OMB, GAO, Congress and the White House



- All funds are 2-year funds, except IG
- Designated emergency for pay-as-you-go principles
- Available through separate Treasury Accounts
- Any transfers subject to normal reprogramming requirements and posting to Recovery.gov website
- To maximum extent possible, contracts should be awarded as fixed-price contracts through the use of competitive procedures; if not, then special posting requirements apply
- Stipulates use of American iron, steel and manufactured goods, with limited exceptions
- Provides for specific wage rate requirements (e.g., Davis-Bacon)
- Establishes a Recovery Accountability and Transparency Board, to coordinate and conduct oversight of spending under the Act to prevent fraud, waste, and abuse

Quality Assurance Division (QAD)

- Key implementation arm for the CFO's Comprehensive Compliance Strategy (CCS)
- Established in 2008 by the CFO to "set the tone at the top" and instill discipline and rigor into enterprise audit and financial reporting processes
- Chartered to help the CFO organization "do the right things right

Quality Assurance Division

- Primary functions are:
 - Checking and remediation
 - Proactive auditing and testing
 - Consultation and training
- Primary activities are:
 - Financial Statement Readiness
 - Financial Statement Internal Control Testing
 - Financial Statement Property Audit
 - Unfunded Environmental Liabilities
 - Improper Payment Improvement Act
 - A-123 Audit
 - Evaluation, Monitoring, and Testing

Quality Assurance Division

- Supports the Continuous Monitoring Program (CMP) that assesses, coordinates and addresses accounting and financial management internal controls and ensures compliance with Generally Accepted Accounting Principles (GAAP)
- Going forward focus areas ("the Big Four")
 - Property valuation
 - Financial Statement preparation
 - Unfunded Environmental Liabilities
 - Intergovernmental reconciliation

Unfunded Environmental Liabilities FY09 Audit Remediation

- The issues are:
 - NASA's methodology for estimating liabilities using the IDEAL model
 - Adherence to SFFAS 6
 - Remediation of asbestos across NASA facilities
- Progress to date:
 - CFO and Environmental Management Division have agreed to partner and form a Joint Review Team for this issue
 - Joint Review Team will review 49 remediation projects at 9 sites
 - Four onsite validations of IDEAL estimates completed
 - Still require consensus with external auditor on SFFAS 6 interpretation
 - Proposing that asbestos remediation issue be pushed beyond FY10

NASA Continuous Monitoring Program

What NASA's Continuous Monitoring Program Is:

- A detailed transaction accounting control process led by Leslie Hyland, Director of the Financial Management Division of the Office of the Chief Financial Officer, across all NASA Centers;
- Corrects the root causes of errors in financial data for major line items, such as Fund Balance With Treasury, Accounts Receivable, Accounts Payable, Status of Funds, etc., through "Clinics" in which accountants, analysts, subject matter experts reach closure on solutions, execute corrections, and compile instructional documents used widely in training;
- <u>Dramatic valuable results have been achieved as a result of this work.</u>

NASA Continuous Monitoring Program Results

Incorrect Accounting Entries (in millions of dollars)

	March 2008	February 2009
1.Fund Balance With Treasury	\$9.7	\$1.5
2. Accounts Receivable	3.0	.2
3. Accounts Payable	91.4	.8
4. Purchase Orders	59.4	
5. Blank and Mismatched Entries	661.8	.03
6. All accounts excluding Property	\$ 872.0	\$ 5.3

NASA Continuous Monitoring Program

As has been discussed, NASA Property accounts require much work:

<u>Incorrect Property accounting entries (in millions of dollars)</u>

March 2008 \$ 751 <u>September 2008</u> \$ 11, 073

February 2009 \$ 3,962

Other Issues/Update

NASA Shared Services Center (accounting transaction processing)

- High unit costs due to \$50 million initial investment and low transaction volumes
- Further improvement needed in timeliness of accounts payable and single grant processing

Office of Chief Financial Officer staffing:

- Currently 96 with 7 vacancies; also use 29 contractors;
- Acting Chief Financial Officers at Goddard and Dryden

Grant Accounting: (change to single grant-by-grant accounting)

 NASA centers now doing single grant-by-grant accounting with the exception of Goddard which is in process of correcting this deficiency now

Conference Attendance

 Attendance at scientific and technical conferences excluded from limitation on expenditures by Fiscal Year 2009 Appropriation; attendance still included in reporting requirement.



- Briefing by Nancy Abell, Acting Chief Financial Officer and Associate Center Director, Goddard Space Flight Center
- 97 Full-Time Equivalent Staff performing accounting and transaction processing work for NASA Headquarters, Jet Propulsion Labs Management Office, and Goddard Space Flight Center

General Financial Accounting has required improvement at Goddard

- Ernst & Young issued 8 findings related to Goddard, all of which will be corrected by April 2009
- Price Waterhouse issued 6 A-123 Internal Control exceptions in the 2008 review, all of which will be corrected by April 2009

Grant accounting at Goddard

 A primary area of current focus is converting and reconciling approximately 5,000 active grants to 430 institutions to single grants rather than "bundles" not later than September 2009

Audit and Finance Committee Near-Term Future Focus



- Property, plant, and equipment solution
- Brief new NASA Administrator on the importance, progress, and current opportunities for continued improvement
- No formal recommendations at this time